

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

### **BFS7154 - CORPORATE FINANCIAL STRATEGIES**

(MBA Full Time)

1 OCTOBER 2018  
9.00 a.m. - 12.00 p.m.  
(3 Hours)

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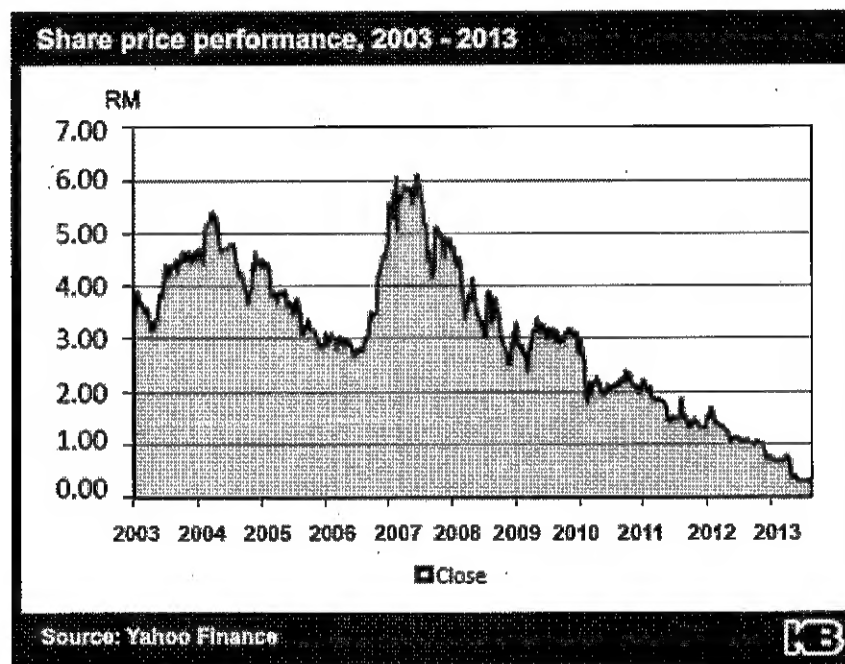
#### **INSTRUCTIONS TO STUDENTS**

1. This question paper consists of **EIGHT (8)** pages including this cover page.
2. Answer ALL questions.
3. Please write all your answers in the Answer Booklet provided.

### Question 1

**Malaysia Airlines case (Read the appendices in order to answer the questions).**

Corporate development and turnaround demand careful selection of financial strategies. The Corporate Lifecycle Model (CLC), for instance, has been developed to provide framework for corporate development process, where it links corporate strategy with financial strategy. Malaysia Airlines, for instance, faced business turbulence in 2007-2013 resulted in poor financial performance (refer to the graph below). The question is, what went wrong with its business and financial strategy despite huge cash at the end of 2013?



“AFTER three CEOs, six thousand job cuts and over RM4 billion in funds invested in its five-year turnaround effort so far, national carrier Malaysia Airlines Bhd (MAB) is now flying into the last leg of its journey towards profitability.

Its sole shareholder, Khazanah Nasional Bhd, sees a clear path forward to that promised land. Last Friday, Khazanah managing director Tan Sri Azman Mokhtar said he expects the airline to be profitable by mid-2019 at the latest.”

(Extracted from The Edge 1 February 2018)

**Continued....**

- a) Analyze the position of Malaysia Airlines profile, pre and post turnaround program, using Corporate Life Cycle Model (CLC). (4 marks)
- b) Discuss the new profile of Malaysia Airlines pertaining to business risk, financing risk, funding, earnings per share (EPS) and dividend. (15 marks)
- c) Critically investigate Malaysia Airlines key financial performance and financial strategies for the year 2013. (8 marks)
- d) In theory, strong cash in the Balance Sheet (Statement of Financial Position) should lead to better share price performance. However, despite strong cash value of RM3.87 billion as at 31 Dec 2013, share price of Malaysia Airlines went down. Explain. (4 marks)
- e) Recommend new financial strategy suitable for Malaysia Airlines. (6 marks)
- f) Based on your analysis above, advice your client whether he/she should continue the intention to invest in Malaysia Airlines. (3 marks)

**(Total: 40 marks)**

## **Question 2**

The total value of a firm is not just the value of equity but also includes market value of all other financial claims including debt, preferred stocks and warrants. Jensen (2011) and Ridzwan (2013) criticized that a firm cannot maximize value if it ignores the interest of stakeholders. Thus, relevant and correct financial strategies are crucial to meet corporate objectives.

- a) Explain what is/are main corporate objective/s? (4 marks)
- b) Discuss three (3) other corporate objectives relevant to financial strategy. (6 marks)
- c) Differentiate corporate value and shareholders' value. (4 marks)
- d) Discuss two (2) methods to measure shareholders' value. (6 marks)

**(Total: 20 marks)**

**Continued...**

**Question 3**

High Speed Broadband Berhad (HSBB) is an internet based company listed in Bursa Malaysia. The company is planning to expand its business operation and by acquiring rival company Slow Speed Dot Com Berhad (SSDC). Details of the companies are presented below:

	HSBB	SSDC
Current Market Value (RM Million)	100	70
Required Rate of Return	10%	8%

HSBB expects the acquisition transaction costs of RM15 million will be incurred. The acquisition strategy will lead to substantial savings of RM8 million annually (perpetuity) and economics of scale.

- Explain the impact to directors and managers of companies involved in this acquisition. (4 marks)
- Calculate the present value of the gain to HSBB from the acquisition of SSDC. (4 marks)
- If a cash offer of RM 92 million is accepted by SSDC's shareholders, what value would be created for HSBB's shareholders? (4 marks)
- If a share offer providing SSDC's shareholders with a 40% holding in the HSBB after the acquisition, what value would be created for HSBB's shareholders? (6 marks)
- Advice HSBB's management whether the acquisition create shareholders value. (2 marks)

**(Total: 20 marks)**

**Continued....**

**Question 4**

- a. Define “corporate financial distress.” (2 marks)
- b. What are some useful indicators of impending corporate financial distress? (3 marks)
- c. MyStore Berhad is in financial distress. The Board of Directors plan to reorganize the company. The following future cash flows are expected:

Year	1	2	3	4	5
Cash Flow (RM) Million	100	120	140	160	180

- If the liquidation value is RM600 million and the opportunity cost of funds is 10%, should MyStore Berhad liquidate or reorganize? (8 marks)
- d. What is global Financial Risk Management? (3 marks)
- e. Discuss considerations in the viability study for potential international investment. (4 marks)

**End of Paper**

## APPENDIX I

### CASE ANALYSIS

# Malaysia Airlines 'technically bankrupt'

Extracted from

<https://www.theguardian.com/business/2015/jun/01/malaysia-airlines-technically-bankrupt>. Date extracted 27 July 2018

Gwyn Topham, transport correspondent

Mon 1 Jun 2015 18.04 BST First published on Mon 1 Jun 2015 12.39 BST

The Malaysia Airlines boss would not reveal whether the carrier would change its name in response to recent aviation disasters. Malaysia Airlines is “technically bankrupt” but can recover from a wretched 2014 to become south-east Asia’s leading carrier, its new chief executive has said, after confirming plans to cut thousands of jobs.

Christoph Mueller said the troubled airline, which had been in dire financial straits even before the MH370 and MH17 disasters last year, was making 6,000 of its 20,000 staff redundant and would sell two its A380 superjumbos to cut costs.

Mueller, who joined from Irish carrier Aer Lingus, where he also axed jobs as part of a turnaround strategy, said the state-owned airline could break even by 2018.

Malaysia Airlines has been propped up by cash from a government sovereign wealth fund, and will be restructured after parliamentary intervention to keep the airline going, allowing the remaining 14,000 staff to be re employed by a new company running the airline from 1 September. The corporate rebranding to Malaysia Airlines Berhad [Limited] may also be accompanied by a more drastic image overhaul, Mueller hinted, although he would not be drawn on details.

In his first public appearance since taking charge on 1 May, the German executive told a news conference: “We are technically bankrupt ... The decline of performance started long before the tragic events of 2014.”

Malaysian Airlines has made a financial loss every year since 2011. Its last quarterly results were revealed in November 2014, as it delisted from the stock exchange when sovereign wealth fund Khazanah bought out the minority shareholders. Losses for the first nine months of the year had reached 1.3bn ringgit (£240m), compared with losses of around 827m ringgit for the same period in 2013.

As the figures showed, the carrier's financial problems had taken root before the unprecedented disasters of 2014. AirAsia, the airline founded by QPR owner Tony Fernandes, which pioneered low-cost air travel in the region, grew up right under the nose of Malaysia Airlines at its Kuala Lumpur base. Meanwhile, the likes of Singapore Airlines and the Gulf carriers made heavy investments in premium, long-haul air travel that Malaysia would struggle to rival.

By mid-2014, those business problems were overshadowed by tragedy as Malaysia Airline's name became synonymous with the disappearance of flight MH370 on 8 March, one of the biggest mysteries in modern aviation, and causing the presumed deaths of 239 people who were en route from Kuala Lumpur to Beijing. The airline's reputation suffered further in its handling of the disaster as details of the confusion emerged. Despite a massive international search operation, followed by an ongoing trawl of a 120,000km<sup>2</sup> search zone in the south Indian Ocean, no trace of the plane has been found.

In July, the carrier was hit by a second disaster as a Malaysia Airlines passenger plane was shot down over war-hit eastern Ukraine, killing all 298 people on board.

Mueller would not say whether the airline would change its name, although he admitted that the public would be reminded of its association with tragedy for as long as the search for Flight 370 continued, particularly in important markets such as Australia.

He said he planned to "stop the bleeding" in 2015, stabilise the business next year and look for growth again by 2017. As part of the plan to cut costs overall by 20%, the airline will slim down its fleet, starting by selling two of the six A380s in its fleet. It will also refurbish its Boeing 777 and Airbus A330 long-haul planes, and cut some unprofitable international routes, while remaining "a full-service international carrier connecting continents".

Documents outlining the airline's overhaul make clear the airline's importance to the country, while alluding to the company's troubles over the years. The presentation says Malaysia Airlines is "more than just a company; it is a critical enabler of national development and a national icon. But it must be anchored on operational excellence, financial sustainability, and the prudent use of public funds."

Analysts were cautiously optimistic that the airline could be revived. Aviation consultant John Strickland said: "Mueller has done good work turning airlines round in Europe that have suffered from political interference with a poor economic backdrop, so he's had experience of making these kind of difficult decisions.

“There’s a good, growing marketplace and opportunity, but the low-cost competitors nearby and quality international rivals will make it difficult. He has to keep winning the hearts of minds of staff and the travelling public, and demonstrate against the backdrop of last year’s tragedies that it is wholly safety focused, and the confidence of travellers is justified.”

Ken Odeluga, a senior market analyst at City Index, said Mueller’s comments suggested he was “trying to afford himself maximum flexibility in the difficult months ahead”. He said that there now appeared to be a will within government to tackle vested interests within Malaysia. “Mueller will have the ear of those strong enough to bulldozer parties which might attempt block the root-and-branch reform of the airline.”

**End of Case**



